

DEPARTMENT OF WATER RESOURCES

CALIFORNIA ENERGY RESOURCES SCHEDULING
P.O. BOX 219001
3310 EL CAMINO AVENUE, SUITE 120
SACRAMENTO, CA 95821-9001
(916) 574-1291



June 30, 2009

Jessica Mumbach
Contracts Administration
717 Texas Avenue, Suite 1000
Houston, Texas 77002

Dear Ms. Mumbach:

Enclosed is one original, fully executed, Calpine 2 Option Modification Agreement between California Department of Water Resources and Calpine Energy Services, L.P.

If you have any questions, please call me at (916) 574-2733.

Sincerely,

A handwritten signature in black ink, appearing to read 'Timothy J. Haines'.

Timothy J. Haines
Deputy Director

Enclosure

cc: Alex Makler
Vice President
Strategic Origination & Development
West Region
Calpine Corporation
4160 Dublin Boulevard
Dublin, CA 94568

cc: Paul Clanon
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, California 94102

Sarah R. Thomas
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Joel Perlstein
California Public Utilities Commission
505 Van Ness Avenue
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Julie Fitch
California Public Utilities Commission
505 Van Ness Avenue
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Steve Roscow
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, California 94102

Jake Wise
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, California 94102

Roy Kuga
PG&E
245 Market Street
San Francisco, California 94105-1702

CALPINE ENERGY SERVICES, L.P.

717 TEXAS AVENUE, SUITE 1000
HOUSTON, TEXAS 77002

June 19, 2009

California Department of Water Resources
1416 Ninth Street
Sacramento, CA 95814
Attn: Mr. Timothy J. Haines, Deputy Director

Re: Calpine 2 Option Modification Agreement

Ladies and Gentlemen:

Reference is made to that certain Third Amended and Restated Confirmation Letter, dated December 07, 2007 by and between the State of California Department of Water Resources, separate and apart from its powers and responsibilities with respect to the State Water Resources Development System ("CDWR"), and Calpine Energy Services, L.P. a Delaware limited partnership ("CES"), with respect to a nominal 180 MW of capacity from the Los Esteros Critical Energy Facility, executed pursuant to that certain Master Power Purchase and Sale Agreement (Version 2.1; modified 4/25/00) including an Amended and Restated Cover Sheet, dated April 22, 2002 and effective May 1, 2002 (the "**Calpine 2 Agreement**"). Capitalized terms used herein and not otherwise defined will have the meanings defined in the Calpine 2 Agreement.

Under the section of the Calpine 2 Agreement entitled "Delivery Period", CDWR has the option (the "**Option**") to extend the Delivery Period to December 31, 2012 by delivering written notice to CES not later than September 30, 2009 stating that the Delivery Period shall be extended to December 31, 2012. Under Special Condition (15) of the Calpine 2 Agreement, CDWR has the right (the "**Assignment Right**") to assign the right to exercise the Option and its rights under the Calpine 2 Agreement if the Option is exercised to Pacific Gas and Electric Company ("**PG&E**") if (i) such assignment is made prior to July 1, 2009, and (ii) PG&E has a long term senior unsecured debt rating of at least BBB from Standard & Poor's and Baa2 from Moody's Investor Services at the time of such assignment.

CES and CDWR hereby agree to extend the final dates for the exercise of the Option and of the Assignment Right until October 15, 2009 in each case, by amending the Calpine 2 Agreement as follows: "September 30, 2009" is deleted and replaced with "October 15, 2009" in the paragraph entitled "Delivery Period" and "prior to July 1, 2009" is deleted and replaced with "no later than October 15, 2009" in Special Condition (15). CDWR further agrees that it will not exercise the Option before July 1, 2009.

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This is a firm offer that may not be revoked before June 30, 2009. Except as expressly set forth above, the rights or obligations under the Calpine 2 Agreement remain in full force and effect.

Please confirm your agreement by executing a copy of this letter where indicated below.

Very truly yours,

CALPINE ENERGY SERVICES, L.P.

By: L.B. L
Name: Larry B. Leverett
Title: Sr. Vice President

Accepted and agreed this ___ of June, 2009.

STATE OF CALIFORNIA
DEPARTMENT OF WATER RESOURCES
separate and apart from its powers and
responsibilities with respect to the State
Water Resources Development System

By: Timothy J. Barnes
Name: Timothy J. Barnes
Title: Deputy Director

cc: Office of the Chief Counsel
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